

SPAA Change Proposal Form

This form should be used by SPAA Parties who wish raise a draft or a formal Change Proposal.

Originators - Please complete this form and submit to spaachanges@electralink.co.uk.
The CP will be issued in the next available Change Pack or to the relevant group in SPAA.

SECTION A: To be completed by originator

Document Control	
CP Status:	Final
For Issue To:	Change Pack
CP Number*:	CP 09/138
Title of Change:	Creation of Voting Constituencies based on Meter Type
Version Number:	1.0
Change Pack Ref*:	July Change Pack
Attachments:	Appendix A – Proposed Legal Drafting

* Assigned by SPAA Change Control Administrator

Originator details	
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CP Details	
SPAA Parties believed to be impacted:	Domestic Suppliers & I&C Suppliers
Proposal to Change: <i>Any proposal to add, delete or amend a mandatory schedule will be subject to Authority Consent</i>	SPAA Documents – Sections 5,7.

Summary of Change:	Creation of four constituencies based on meter point classifications; NDM SSP Annual read, NDM LSP Annual read, NDM Monthly Read, DM Read. All changes to be classified and voted on by each constituency separately, with each affected constituency required to positively vote for a change.
Related CPs: <i>Please indicate if this CP is related to or impacts any other CP already in the SPAA or other industry Change Process</i>	None

Proposed Solution:

Introduction

SPAA was originally conceived to manage the metering protocols that were developed at the start of metering competition.

The intention of Ofgem was that this organisation would have a large degree of self-governance and so a voting system, based on meter points, was put in place to accommodate this. Each vote is based on constituency system, where each licence holder is represented in a Domestic Supplier, I&C Supplier or Transporter constituency. A key principle of the voting arrangement that was devised is that licence holders would only have formal influence in the appropriate sector, with voting limited to the market they operate in.

Recently developments in meter technology, such as AMR and smart metering, as well as legislative and regulatory moves to strengthen the protection afforded to SME customers has increased the need to increase the differentiate between customer types, as opposed to licence types, when voting for changes to the SPAA framework.

Current Regime

At present all changes are classified according to the licence holder it will affect; Domestic Supplier, I&C Supplier or Transporter. All voting on a change is likewise determined on a Supply licence basis, with each meter point giving one vote in each constituency. This classification is appropriate when dealing with Domestic-only issues, as the size and homogeneity of Domestic households means that a voting system based on Domestic market share.

Using a similar system is not appropriate for I&C however. It does not distinguish between the widely differing requirements of the I&C commercial sector; it does not seem appropriate to equate SMEs (who in many respects are identical to domestic properties) with large industrial plant such as Chemical Works or Power Generators. The code and legislative frameworks for such sites vary massively as, historically, the regulator and the governments have divided the I&C market into more realistic sectors, primarily based on meter points.

In a wider context, progressing change by licence type also does not reflect the fact that the market dynamics for large and the small non-domestic sites varies massively. SME customers can and do act like domestic customers in respect to procurement and interaction with their Supplier, in the main desiring a fixed rate contract. By contrast, mid to large I&C customers are likely to have a high level of interaction with their Supplier, have a comparatively expert knowledge of the gas market and are likely to expect a flexible cost contract with a sizable portion of the risk being passed through. In light of

this, the I&C market has a larger range and diversity of Suppliers, with certain Suppliers concentrating only on large I&C sites or SME customers, compared to the domestic market with all significant Suppliers either being historical regional Electricity Suppliers or the incumbent domestic gas supplier.

These problems have hindered the full development of SPAA and are a fundamental stumbling block to the creation of a Supplier-focused market framework. It seems appropriate that the current high-level framework, in particular the change management process, is re-visited to create a more flexible regime.

Basis for proposed change

There have been several attempts to adjust the voting mechanism to take into account the above problems in progressing change in the I&C market, but have always assumed that the constituency classification of Domestic and I&C Supplier should remain for change management purposes and that it is appropriate for I&C Suppliers to have equal voice in all areas of the I&C market. All of these attempts have failed to strike an appropriate balance between the legitimate needs of Domestic/SME and Mid/large I&C-focused Suppliers to have influence over, and pursue change in, their own market sector. This can be resolved by sub-dividing the I&C market.

In previous attempts to separate the retail market, market sectors have been delineated by annual consumption, site use and/or meter type. Classifications based purely on consumption have been found to be a less than ideal solution. Any values that are defined are arbitrary as they are based on assumptions derived from statistical information of the customer population as a whole. Any classification based on consumption can also result in sites being inappropriately classified at any moment in time. A large factory site, which is currently vacant may well have a similar consumption to a small domestic property, but their market needs are very different. In summary annual consumption alone is an inappropriate mechanism.

Historically the supplier license regime has used site use (i.e domestic or non-domestic use), and this is what the current regime is based upon. As identified earlier, the governance framework is inhibited by the fact that it does not adequately identify the widely differing I&C sites. It would be difficult to create an equitable and completely objective framework in identifying between different categories of I&C site based on site use owing to the sheer diversity of Industrial and Commercial processes that are possible.

With these problems using site type and annual consumption, it therefore seems appropriate to consider meter classification as the optimum solution.

There are significant benefits in moving towards a meter classification voting regime. The majority of legislative and industry-led initiatives use the Supply Point classification as the basis for determining the scopes of any changes. Looking at historical changes that affect Supply Points, it is clear that where changes affect only a part of the market, the boundaries of that market sector are defined by the meter point classification. The most obvious examples are interruption reform, the rollout of the next generation of meter technology, and the recent reforms to the SME market. It will also give I&C Suppliers the ability to have a level of influence proportionate to which part of the market sector they operate in and allow changes to be more easily progressed in each market sector.

Proposed Changes

The change itself is relatively straightforward. It is proposed to base regime voting on the current meter classifications used by the industry, namely SSP Annual read, LSP Annual Read, LSP Monthly Read, DM Read. The formal classifications of the four Supplier constituencies are:

DM Read: Any site which is classified as a DM site by the Gas Transporters. These are

currently firm sites that have an annual consumption greater than 58,600,000 kWh; NTS Direct Connects; Interruptible Sites or sites that elect to be DM, the Transporter has agreed to and has provided the metering equipment necessary.

NDM Monthly Read: Sites that are classified by the Transporters as requiring to be monthly read or has elected to be classified as monthly read and has been classified for such. This will cover all sites with an annual consumption that is less than 58,600,000 kWh, but greater than 293,000 kWh, and are not DM. We are aware of work within the UNC to introduce a new form of meter classification for sites that Use Shipper AMR equipment to be daily read. As these sites are more likely to fluctuate in classification between NDM monthly read and DM(E), it seems appropriate for simplicity that DM(E) sites are counted within this constituency.

NDM LSP Annual Read: Sites that have an annual consumption greater than 73,200 kWh, but less than 293,000 kWh and have been registered by the transporters as such.

NDM SSP Annual Read: Sites that have an annual consumption of less than 73,200 kWh and have been classified as such by the transporters.

Each change would be classified according to those metering sectors that it impacts and all votes in the change process would undertaken in regard to these classifications, in both the initial votes, as well as any subsequent appeal to the SPAA forum. By moving to such a system, there will be a small number of domestic sites that will be classified as LSP Annual read or I&C sites are SSP Annual read. We would consider that as SPAA is primarily concerned with the management of the metering protocols and processes within the gas industry, it seems appropriate that the voting regime is defined by the meter types a change will affect.

The constituency voting process as currently set out in the SPAA would be utilized, so in the event of changes that affect more than one constituency, each constituency would vote separately and the votes would not be aggregated to form one super-constituency.

With regard to the voting thresholds, at present the SPAA uses a concept of minority blocking; any change requires opposition of 36% of the total weighted vote to prevent implementation. It is our belief that this number was derived from the composition of the market place at the creation of the SPAA, and is not based on any detailed methodology. With the movement towards four constituencies, we feel that to ensure the largest suppliers in each sector should not be able to introduce change without attempting to achieve consensus, but that a single supplier should be not able to unilaterally impede change.

A voting threshold of [65%] combined with the capping process, means that a minimum of two (in reality more than two in all sectors outside of the SSP Annual Read sector), Suppliers would have to oppose any change for it not to be implemented, and so we propose this threshold is used.

In moving to a system where a Supplier will have multiples votes in each constituency, the current regime for voting in the forum on any appeal will no longer be workable, so a knock-on change is the removal of a Domestic and I&C constituency classification for votes.

For the avoidance of doubt, there will be no change to the SPAA executive or the transporters voting arrangements.

Analysis of impact on historical changes:

To illustrate how changes would be classified under the new regime, we have thought it appropriate to look at historical changes and likely future changes, to see how they would have been classified.

Change	SSP Annual Read	LSP Annual Read	LSP Monthly Read	DM Read
Mod 0090: Revised DN Interruption Arrangements	No	No	Yes	Yes
Mod 0224: Facilitating the use of AMR in the Daily Metered Elective Regime	No	No	Yes	No
CP 08/119: SPAA Schedule 10. Follow up of the Erroneous Transfer initial response within 5 days.	Yes	Yes	Yes	No
CP 08/122: Revision of SPAA voting and funding arrangements (I&C Constituencies)	No	Yes	Yes	Yes
CP 08/124: Revision of SPAA voting and funding arrangements (all Supplier Constituencies)	Yes	Yes	Yes	Yes
CP 08/125: Inclusion of Gas Prepayment Meter Forum and activities under SPAA	Yes	No	No	No
Ofgem Supply Probe findings	Yes	Yes	No	No
Smart and Advanced metering for Small and Medium businesses	No	Yes	No	No

As can be seen, the creation of four constituencies will allow changes to be more targeted to the appropriate constituency and will allow those Users with the greatest interest in a particular change, to have greater influence over its development.

We have provided some initial thoughts on changes to the legal text. We would stress that these proposed changes are indicative only and that the proposed high level solution should take precedence in the event of any conflict.

Please see attached document.

Proposed Implementation Technique:

Big Bang

Proposed Implementation Date:

There do not appear to be any significant technical hurdles to implementing this modification and so the modification can be implemented as soon as direction from the Authority is received.

Business Justification for change:

Undertaking these changes will allow changes to be appropriately classified according to the meter type, which is the benchmark used in defining market sectors for change management purposes. This change will therefore allow solutions to be targeted at the appropriate market sector, rather than being applied across licence type. This will limit administrative costs to all SPAA parties, ensure that market sectors can develop changes without impacting other sectors unduly and ultimately help develop the SPAA regime as intended.

How will the CP facilitate the SPAA relevant objectives:

Refer to Standard Condition 30, 30.6 of the Gas Suppliers License

(a) the development, maintenance and operation of an efficient, coordinated and economical change of supplier process;

We foresee no impact on the change of supplier process.

(b) the furtherance of effective competition between Gas Suppliers and between relevant agents;

We do not believe that this modification will facilitate this relevant objective.

(c) the promotion of efficiency in the implementation and administration of the supply point administration arrangements; and

Reclassifying changes according to meter type impacted, and allowing any voting to be based on these meter types, will allow changes to be targeted to the appropriate constituency and allow those constituency members to have a clear voice on any changes. This will ensure that changes will be progressed will be less likely to be subject to appeal or challenge. These changes therefore facilitate this relevant objective.

(d) so far as is consistent with sub-paragraphs (a), (b) and (c), the efficient discharge of the licensee's obligations under this licence.

We do not believe that this modification will facilitate this relevant objective.

Authority Consent Required:

Please note the reason Authority Consent is/is not required.

See the SPAA Change Guideline and Section 9 of the SPAA for further information on the Authority Consent Process.

Yes as this proposal will have a significant change to the current SPAA framework.